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Bakkt Holdings, Inc.

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David Weinberg: Thanks everyone for joining. Thanks everyone for coming out to the conference and for joining the session. For those who don't know me, my name is David Weinberg. I'm a vice president of our Financial Institutions Group. Very happy to be joined today by Gavin Michael, the CEO of Bakkt.

Gavin, maybe to start us off, would you mind introducing yourself and then also sharing a little bit of history of Bakkt?

Gavin Michael: Sure. Good morning, and thanks for having us. It's great to be able to talk about the company at the conference. I joined the company in January of 2021, just as we announced the transaction to go public. Bakkt was formed in 2018 and spun out of intercontinental exchange as part of our listing and de-SPAC process.

We gain a lot from that heritage, having come out of ICE with the goal and the mission to be able to provide trust and transparency into the digital asset space. I've been with the company over the last two years as we're driving towards this new growth of being the platform of choice for institutions and companies who are looking to enter the crypto economy.

David: What drew you to Bakkt in the first place? You obviously have a history of several large financial institutions, including being J.P. Morgan alone.

Gavin: [laughs]

David: What drew you do to Bakkt and the digital asset ecosystem?

Gavin: I spent my career inside financial services working with firms like J.P., Citi, Lloyd's in the UK, and National Australia Bank down in Sydney. All of that activity had always been around working at the intersection of digital disruption and banking, so disrupting, if you like, inside out.

When the opportunity came up to join Bakkt, it was to go the other way. It was to disrupt the industry outside in. It was to be a significant player in this crypto environment showing that we can onboard people in a secure, compliant, regulatory-first way and unlock the benefits of the innovation that we see the crypto economy providing to traditional financial services.

It was a little bit of an option to be able to take what I've been doing classically inside out and try it outside in.

David: Bakkt today, let's talk about the business, provides infrastructure for a number of different end markets, obviously, the crypto business, loyalty solutions, and much more. What's the vision? How does it all come together? Can you speak to that?

Gavin: Sure. At our core is our institutional grade, secure, compliant platform that brings together crypto custody and crypto trading all in one place. When we talk about custody, it's about providing that secure, compliant environment where we can store, at this point, Bitcoin and ETH as a self-custody qualified custodian.

We have advanced trading capabilities that help us service trading on a range of tokens. As you think about trading, it moves into crypto rewards and crypto payouts that are specializations of that more general trading use case. That's a great tie-in to the loyalty business that is about providing ways for brands to be able to differentiate themselves in this digital asset space.

What's appealing to the partners that we work with is that we're a one-stop shop, where you're able to get access to core infrastructure to allow you to power the crypto innovation that so many firms are looking to enter at the moment, but also then the ability for them to be able to move into other use cases beyond trading.

When you start to think about utility, you start to think about things like tokenization of assets. If you're going to tokenize a set of assets, you need to store the tokens with a custodial provider like ourselves or even moving then into payment innovation and using Lightning and the rails that crypto runs on to provide different ways for fiat-to-fiat transactions to progress.

At the core is this institutional grade platform that really supports this innovation around crypto in financial services.

David: When you think about the custody business being at the core and about themes that have become increasingly important recently -- safety, soundness protection, and segregation of customer assets -- how have recent events in crypto impacted your business?

Gavin: Positively. We've seen a material increase in the number of inbounds that we're seeing for crypto solutions, particularly around custody. Those inbounds are coming from a diverse range of institutions.

It could be institutions who are looking for somewhere else to be able to store their assets. They're looking to initiate a relationship with a secure, compliant, regulatory custodial set of services.

It could be a fintech who's looking to start this journey into crypto trading or it could be an institution that's looking to diversify its crypto custody services, because in light of the events that have happened throughout the industry, it's forced a number of institutions to look at have they got the right disaster recovery, have they got the right redundancy in the relationships that they hold.

If I look at the number of inbound leads through the first quarter of this year compared to where we ended last year, we've seen a doubling.

It is that idea of being the secure, compliant, reg-first player that's differentiating us when people are looking for a qualified custodian that has set up and established the entities with a limited purpose trust charter that stores all of the assets that we have that's very separate from our trading and exchange activities. In that very setup, we're showing that regulatory-first, compliant-first mindset.

David: On the theme of being regulatory-first, being compliance-focused, can you share a little bit about your views on the regulatory landscape in the US?

Gavin: There's no doubt we're not moving fast enough. The ambiguity that's been introduced into the US environment through the lack of progress is evident in many of our discussions.

We work with a range of regulators. We work very closely with New York state regulators who have done a very good job in establishing a digital assets framework. We have a great working relationship with them through both our trust and we hold a BitLicense as well.

When you look at the federal level, they're just slower to act. Slower to act, not just in the context of necessarily providing us with the regulatory guidance, but also slower to act in comparison to what's happening around the world.

We're definitely seeing markets that are leading towards more and deeper understanding of the regulatory environment, and that's leading to an uptick in demand. There are positive signs. It's not all just slow. The week before last, has financial services and ag committee held their first ever joint sitting to talk about digital assets and to take testimony from a wide range of witnesses.

I'm hopeful with the farm bill coming due in September that ag committee might look to ride a crypto piece through that. We're absolutely supportive of the actions that are being taken around enforcement for bad actors. That's important when we want to establish trust back into our industry.

The challenge is that we've got to move beyond enforcement, we've got to move beyond just showing the third rail. When we think about a comprehensive regulatory framework, it not only tells us what we can't do, but it gives us ideas on consumer protection, consumer disclosures, what our operational risk appetite should look like, how do we conform to BSA, what KYC, AML standards do we need to be held to.

It's that that we're lacking. The fear is that, and it's a very real fear, other markets where that clarity is being sought and found will lead the world around innovation and move us beyond that investable asset paradigm and into one of utility.

Whether tokenization is the new world of securitization or not, whether Lightning can make payments more efficient or not, they're the test beds that we want to be able to see. This is both about regulation and regulation to allow innovation.

David: When you think about some of those international markets that have taken further steps than the US regulators, what are some of the ones that you think have been particularly impressive? How does it impact your own international strategy?

Gavin: International expansion, as we've said in a couple of our recent discussions, is very important to us. It shows that when we see a slowdown in one market, we have the ability and the agility to move into another. We're very focused on the UK, parts of the European Union, and Southeast Asia, Hong Kong, for example. All of these markets are showing that regulatory clarity.

We're seeing demand from our partners to start operating in those new jurisdictions because they want to capitalize on the positive consumer sentiment that they see. There's very attractive trading flows in those markets that we want to be a part of.

When we think about international expansion for us, we're in a very unique position for the way in which we can think about entry into those markets because we have clients who are already established that. We're following them in. They're already established. They have the payment integrations built. They're trading US equities, for example.

We're able to go in behind them with the new asset class that they add to their platform. We have a very low barrier to entry when we think about our ability to move quickly. It's a big focus for us right now. We're hoping that we'll see some activity through the next few quarters.

David: International expansion obviously a big strategic priority. What else is in that top three?

Gavin: International, definitely, Custody. Custody is a great anchor product. It allows us to establish ourselves with a client. We are able to then take on the ownership of the assets, and we continue to invest in our custody infrastructure to move to a more modern architecture, so something that's very agile.

The ability for us to be able to help our B2B2C partners, as well as institutions, providing capabilities like hot wallets that are allowing automatic withdrawal and deposits of assets, and expanding the asset classes that we support. Moving beyond just Bitcoin and ETH, adding additional tokens, and then providing yield opportunities as well.

There are many long-term holders out there of the assets that want to be able to extract the yield. We think staking becomes an important capability, not just at the consumer level, but also at the institutional level.

Then the final one is driving to utility. Our ability to be able to provide core infrastructure to allow institutions and partners to embark on extracting value from the broader crypto stack. As I said, that's allowing them to be able to tokenize different asset classes. Tokenization of asset classes is, you've got to store the token somewhere, that's where we come into play.

Then as we move into a lightning environment, payment innovation. It was Bitcoin pizza day this week, I fondly remember, as do many people in the industry. It's not about using Bitcoin necessarily as a medium of exchange, it's about using the infrastructure that underlies it to allow fiat-to-fiat transaction to process in real time and uniquely without a third party involved.

That has great application for B2B business payment use cases. it has great application for cross-border remittances. You can go further because there's so much more we can embed at the protocol level about the payment and the payment instruction.

We see international, we obviously see custody, and then we definitely see this utility move using our platform to create those moments of innovation.

David: You've prioritized a B2B and B2B2C model sitting squarely in that infrastructure space. What drove that for others in the space that have been B2C? In the past, that has been popular too.

Gavin: Part of it is efficient and effective scale growth. When you're a B2B2C company, you're able to put your product out there in so many more venues that grow scale quickly and efficiently because the CAC is so much lower when we're working with a partner. The partners are incentive to be able to deploy the infrastructure because they see that they're taking value to their customers.

It's definitely a part of the proposition they want to be able to hold true to. Our move has been one about, how do I achieve scale and growth quickly? How do I create a platform environment and keep the company focused on running that vertical very, very well?

Moving into a place where when you start looking at D2C the scale and the CAC gets tough, particularly in a market that we're in at the moment. When we look at the partners that we appeal to, we've got a terrific number of partners across the platform, but the fintechs are leading the space right now.

They have a different customer demographic, a younger, more tech savvy one that these digital assets start to appeal to. We have great trade fight partners as well, but the activations have just become so much slower given the lack of regulatory clarity that we see.

David: That's maybe a good transition point to maybe talk a bit about Apex Crypto which you announced last year the acquisition of and closed in the last month or so. Maybe just to start, can you lay out the strategic rationale and how it contributes to your B2B2C strategy?

Gavin: We're excited by the acquisition, and we're delighted that it closed in a short amount of time, which is testament to the regulatory approach that both companies have taken. The rationale for us was one of looking for a sustainable growth. They bring advanced trading capabilities that were on our roadmap, and this accelerated our roadmap.

The ability for us to then be able to pair an advanced trading capability underneath supported by our custody environment, creates a platform that we believe is unrivaled in the marketplace, and is making it the platform of choice for many institutions and client partners. They bring immediate scale in both activity -- we have almost six million crypto accounts -- as well as distribution.

We now have some terrific partners on the platform. We support Webull, we support M1 Finance, Stash, Public.com, who are all being innovative and creative in the trading and wealth management space. We continue to see strong traction with those partners and great interest from others wanting to come on to the platform.

We believe that when you think about the capabilities we now have, we have unparalleled access to liquidity, we have deep tight pricing, transparent pricing that we give our consumers access to, and because of the redundancy in the platform, we have 100 percent uptime. Again, these are all aspects that start to differentiate the platform when we're in the marketplace.

It gives us the ability to do gifting, advanced order types. The ability for us to be able to move coins in and out of the platform are all good examples of, again, features that we wanted to develop that we now have through the acquisition.

We're very focused on the integration. In addition to getting great technology and access to some great clients, we've been able to acquire an enormous amount of talent across operations, across product, across technology, who have come into the environment with a culture that is very kin to the culture of Bakkt.

The integration is focused on efforts to bring the two companies together in an expeditious manner, and then work to continue to invest in the platform as we move forward.

David: Coming out of the deal, and setting aside the relationships out of Apex Crypto, but thinking about distribution, you obviously also now have a bit of a relationship with Apex Fintech which serves innumerable fintechs in traditional asset classes. How do you see that developing?

Gavin: The commercial relationship with Apex Fintech solutions was key to the transaction because it gives us the ability for, as they're growing their platform, we go in behind with the crypto asset class. It expands our sales force and our reach.

Because the platform is entirely API driven, the other thing that is terrific in the sales and distribution cycle is it's about 45 days to get a client live. We work with speed and agility not just in the sales process working with a like-minded organization like AFS, but then also coming in behind on a very rapid integration cycle.

David: When you think about the differentiators for Bakkt today, obviously, distribution, a unique advantage that you have versus most of your competitors, regulatory adherence, we talked about that a bit. What are some of the other areas that you think differentiate Bakkt from your closest competition?

Gavin: When we're out there talking about the platform, when we're starting the discussions, it is about that, firstly, it's a one-stop. You get custody. You get advanced trading, access to different parts of the innovation cycle that crypto is enabling, but it's the security, the compliance, the regulatory approach.

We are SOC 1, SOC 2-compliant. We have the right operational risk profile. We are constantly in discussions with various regulators, whether it be ad hoc, whether it be through exams, that are just showing to partners that we have a platform that is differentiated, not just in the technology that we have and the breadth, but also in the way in which it's viewed by the broader industry.

We said about when we established the entity, we run a trust charter, which is our custody operation. We separate trading and execution. There's no co-mingling of funds. Customer funds are held purely in the trust. It's those areas of separation that, when we start the discussion, start to differentiate us from others in the marketplace.

Then it's the speed and agility of adoption. It's not just the fact that the platform itself is robust and scalable, it's the 45 days to be on the platform and operational.

David: Features that clearly resonate to our listeners today. Shifting a bit to the macro environment. We're in this world where for the last 12 to 18 months, we've been in a crypto winter. At the same time, prices are well above where they were pre-pandemic and even in the depths of last year following some of the confidence shocks in the ecosystem.

People are still building. There's still activity. Can you contextualize where you think the crypto ecosystem is?

Gavin: We're still in the midst of winter. It's a different sort of winter as well. I know this is the third one we've been through as you think about cycles, but this one we find ourselves in a place where we have recessionary fears. We have rising interest rates.

Then we've had a number of bad actors fail around the space, whether those failures are associated with crypto or not. We're working hard not just to rebuild the value that crypto brings, but also the trust and regulation as well.

The industry took some knocks through what happened in the latter half of last year. We're certainly not completely recovered from that. We are spending our time out there demonstrating the value of what we have.

When you think about the cycle that we're in, we've definitely seen green shoes. We're definitely seeing people across a range of different use cases who want to be in discussions about how these can help positively impact their business.

There's a cautious note about how fast they enter the space. Then that's being juxtaposed with what's happening in the international markets, where once regulatory clarity comes to a market, consumer sentiment shifts very quickly.

Then we go back to an environment where partners want to be involved in the flows. They want to be part of that building of the economy. It's a different sort of winter. What we're looking for is signs of thaws. We're definitely seeing inbounds. We're definitely having discussions. The traction is there in the pipeline. It's decision cycles are more elongated than they've been before.

David: Would you say, when you think about the TradFi and market, you commented earlier waiting on regulatory clarity. Is your sense that once we have that in the US, there will be a pretty quick flip?

Gavin: I think so. What gives me confidence is watching the EU pass MiCA, for example. There are a number of traditional finance organizations that followed in with that clarity. We had a strong amount of traction in TradFi early on.

Then as soon as the regulatory ambiguity started, as soon as the regulatory agencies weren't clear who was giving direction, those discussions died down very quickly. The fintech discussions are still very robust. There's still new fintechs coming into the platform, into the discussions around how we can help them with trading solutions, with custody solutions.

It's waiting for that regulatory clarity for the larger organizations to come. I also think that what's going to help us is not just the clarity of the regulation, but us being able to move beyond the investable asset use case and into showing that there's utility, that there's innovation that comes from this that makes our financial markets more efficient.

David: I want to give an opportunity for folks in the audience to ask any questions. Feel free to speak up if there are any.

Audience Member: A two-part question on the regulation topic. We've recently seen some talk or, even in some cases, even as recently as last week, action of companies threatening or, in some cases, moving their headquarters outside of the US due to that regulatory uncertainty. Is that something you think will continue?

As a second part to that, if for whatever reason we don't get that regulatory clarity in the near term, or if we get it and it's not regulatory-friendly, do you think that this is a sector that can thrive just based on everything going on internationally if the US continues to be uncertain?

Gavin: It's a great question. For us, we're very committed to the US market. We continue to make investments that are purely around how we grow our business here domestically.

We're getting involved in the discussions with the regulators about market structure, about how we think the issues should be dealt with, both issues that relate to the industry as a whole, but also issues that pertain to our business specifically.

What I fear more is that we start to see the innovative aspects of what this technology has to offer being utilized in other markets and passing us by here in the US.

When I look at the regulatory environment, and we, for example, were proactively delisted 25 coins the week before last, it's an example of us responding to the environment we find ourselves in at the moment and doing it in a way that is trying to be proactive and not reactive to different actions that we see in the market.

When Bittrex had their action from the SEC, we quickly delisted ALGO and MANA, and that's a very disruptive consumer experience. We need to keep moving the discussion forward to what utility does this technology provide to the market beyond the speculative investable asset class.

That is an easier set of discussions to regulate when you think about us using a set of lightning rails to make a B2B payment, but the payment is fiat-based, it's just moving across a Bitcoin as a transport.

That is a great use case, but it's one that is easier to regulate than looking at how do I register for an S-1 for an ICO from a set of coins that perhaps aren't owned by a single entity. That gets a whole lot harder. It's those degrees that we need to look for.

I'm hopeful, I am because I see strong progress in overseas markets, and there's a lot of learnings that we can take from those markets into where we go. Conventional market structures can work for this asset class. We just need to be thinking about how we apply it.

The area where it's different is custody and settlement, and that's what we do. We provide part of that necessary infrastructure to allow a conventional market structure to take over.

David: Maybe a couple for me on how you think about running the business. How do you think about capital allocation in the current environment, balancing growth and the ability to build even in a challenging market with conservatism just given the uncertain macro?

Gavin: For us, it's prudent management of the capital base, both in terms of the necessary expenses to run the business, so making sure that we are as lean as we can be, but also simplifying the business, being very focused on opportunities that we invest in that show near-term growth potential that will lead to that more sustainable business model.

Investing in custody for us is a very easy decision because we see so many utility players wanting to talk to us about how custody can operate. The investments we're making show that they have near-term growth potential.

There are others that we say no to, because whilst they feel like a good idea, right now is not the right time to move forward. You've seen us do that in the past where we decommission part of the business because we felt that to continue to invest in that wasn't going to provide us with the right level of sustained growth that we needed.

The focus is very much on prudent expense management within the company, together with opportunities that show near-term potential, and through that near-term growth, lead us into the path into sustainability.

David: Bakkt is one of the very few publicly listed crypto infrastructure firms. How does that influence how you run the business? What opportunities do you think it affords you?

Gavin: It's advantageous. By being a public company, we obviously opted for the highest bar of regulatory compliance that you can find. It's very easy for our partners to find out about our business through the number of disclosures that we have. We're in constant contact with a variety of regulators, whether it be through consultation, ad hoc inquiries, or examination processes.

It also demonstrates a level of operational risk management and control infrastructure that our partners find appealing. We need to be SOX-compliant. We need to be able to show that we have three lines of defense through the organization, the right risk management appetite, risk management posture, and the right management cadences, including up to the way in which we will operate with our board and the board subcommittees.

Whilst it's needed us to build a lot of the PubCo infrastructure, so there's been an enormous amount of investment in our finance and control functions, in our risk and compliance functions, the benefit of that is it becomes a differentiator when we're out there talking about the services that we offer.

It is ultimately advantageous to us in the discussions. It also gives us access then to capital markets in a whole new way. As the market comes back, we think that that will also be an incredible advantage to us.

David: Even before the capital markets come back, your publicly listed stock has been advantageous as far as acquisition capital when you think about M&A and how that can help drive, obviously, Apex Crypto, highly successful. What other priorities do you have in the M&A sphere?

Gavin: When we look at a number of assets, and we see assets a lot at the moment, it's about how do they help us with the growth. It is something that has to be exactly aligned to what we do today and it needs to be something that is easily consumable for us.

There are many different business models out there that people are asking us to look at, but they don't have the right level of fit with the model that we have today. It's that discipline that becomes important. Otherwise, the M&A engines become a distraction to what we're doing every day.

Apex was a great example, I believe, of a well-executed transaction, a strong strategic rationale. We used the liquidity of the stock to help us execute the transaction. We've seen immediate scale come to the business through that transaction. When I think about others that we see out there, when we don't see as strong a fit, it's something that we pass on very quickly.

David: I know we only have a couple minutes left. I'll pause briefly for anything else from the room. If not, maybe just in closing, when you think about the top three things needed for the crypto economy to achieve its full potential in the next three to five years, and it can be the top one thing if you'd like, what would those be?

Gavin: The top one thing is definitely regulatory clarity and a return to trust in the market. It's the ability for us to be able to show the value of the asset class broadly across different use cases.

The final one for me is this move into utility, this ability for us to be able to take the technology that supports this every day and show new ways for us to do things in a more efficient, more effective way that ultimately make the consumer experience better. It's innovation with that goal. Number one on the list is definitely regulatory clarity.

David: Gavin, this has been great. I really appreciate you taking the time.

Gavin: My pleasure.

David: Thanks, everyone for joining us.

Gavin: Thank you.

[applause]

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